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Implementation of the first United Nations Decade for the Eradication of Poverty (1997–2006)

Role of microcredit in the eradication of poverty

Note by the Secretariat

The Secretariat has the honour to transmit to the Second Committee the attached statement, which was made by the Under-Secretary-General for Economic and Social Affairs at the 31st meeting of the Committee, on 2 November 1998, as an introduction to the report of the Secretary-General on the role of microcredit in the eradication of poverty (A/53/223 and Add.1) (see annex).

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Annex

Statement made by the Under-Secretary-General for Economic and Social Affairs

1. It is my privilege to come once again before the Second Committee to introduce the agenda item on the implementation of the first United Nations Decade for the Eradication of Poverty. There are a large number of documents included as part of the discussion and I will not try to cover them all. Let me focus my remarks on document A/53/223 and Add.1 which deals with the role of microcredit in the eradication of poverty.

2. I am introducing the report contained therein, partly at least, to correct certain distorted reports of it which have become more widely known. While written essentially as an evaluation of experiences, this is not a document that advocates one policy. It is basically a report on the strengths and weaknesses and the activities of the United Nations in this area. As the summary indicates, the report does contain suggestions for strengthening operations and makes a particular plea for ensuring that microcredit projects are established in a broader context of support to the small-enterprise sector.

3. Let me first clarify that the United Nations has made a policy statement on the importance of microcredit and this is the policy statement that guides our work, particularly at the field level. That statement was contained in the message from the Secretary-General, Kofi Annan, at the 1997 Microcredit Summit. Let me quote one sentence from it which I hope will categorically establish that we in the United Nations system are fully committed to the role that microcredit can and should play in the eradication of poverty. The sentence that I wish to quote from the Secretary-General's message states "that microcredit is a critical anti-poverty tool, a wise investment in human capital". I hope this will clarify the fact that though there are strengths and weaknesses in the microcredit system, we in the United Nations system are fully committed to supporting microcredit, to advancing it, to strengthening it, and we see it as a crucial and vital intervention in the great objective of the eradication of absolute poverty.

4. What is microcredit? There are many different ways one can look at it; but the one dimension that I would immediately pick out as central to the effectiveness of microcredit in poverty eradication is its being credit that can be advanced without any collateral. Normal systems of credit are designed for advancing credit against collateral. One of the key features of microcredit schemes is that they are ready to lend small amounts of money without collateral. The people who do not have collateral in our societies are essentially people who are poor and disadvantaged. A very large proportion of these people are women. It is for this reason that microcredit is a vital instrument in providing access to credit and, through credit, empowerment for women, for people who are way below on the poverty spectrum.

5. I will give you one example of how microcredit opens up options for such people. In the city I come from, Bombay, there are a large number of migrant workers whose families are not with them. There are also, in the same city, widows who need a steady source of income. An innovative microcredit scheme provided modest amounts of credit to these widows, who had no collateral to offer, so as to allow them to buy utensils and to procure supplies at wholesale prices. They would cook meals at home, feed typically about 15–20 migrant workers every day and earn a decent living. The migrant workers received the advantage of home cooking. Now, here is one way in which microcredit empowers women, opening up options to them because it reflects the willingness to lend without collateral.

6. There are many other examples like this that one can give. This to me is a central feature demonstrating why a microcredit scheme is different from the normal process of development offered by credit institutions.

7. The second point I would make is that microcredit is most effective when there are also other investments being made in order to expand options and potential investments in basic social services, investments in small-scale infrastructure — infrastructure that really improves access of the poor to markets, to inputs and to technology. Again I can give an example, involving milk production and distribution. In a famous milk cooperative in India, microcredit allowed poor farmers, in many cases landless farmers, to acquire milch animals to produce milk. However, the effectiveness of the microcredit was greatly enhanced by parallel investments in the whole system of milk collection, milk processing and milk marketing. The system met with spectacular successes in terms of income earning for poor people in rural areas and better quality of milk for urban consumers. I give this as an example to show how the benefits of microcredit can be greatly enhanced if it is seen as part of a broader process involving infrastructure which

enhances options and microcredit which then allows the poor to tap and utilize those options. Looking at it in another way, the effectiveness of the infrastructure investment is greatly enhanced by the provision of microcredit which ensures that these infrastructure investments work to the benefit of the poor and are not monopolized by a few people. Hence, there is the need to integrate microcredit with the broader processes of support for small-enterprise development.

8. The third point I would make is that much more needs to be done in the area of microcredit. If you look at the report that we have presented on the work of the international system — the donors, the United Nations system, the World Bank and others — it is clear that the scale on which support is being provided for microcredit is well short of the potential to absorb this support, well short of the numbers of the poor in rural areas and urban areas of developing countries who have the willingness, the potential, the ability, to use these credits constructively in order to advance their own position in life. Let me here stress that the report does refer to some studies that have spoken about whether the poor might or might not have business skills. In my own experience, this is not the problem. Do not ever underestimate the entrepreneurial potential of the poor. Where options have been generated and created in a meaningful way through microcredit, through well-targeted infrastructural investments, they have shown the capacity to utilize these effectively and constructively for their own advancement. One of the things that have always impressed me about people in poverty is their willingness to save if they see an option. I have seen poor families in my village save from a very low level of income in order, for instance, to put a child through high school. So this capacity of the poor to work for their own advancement, which is what microcredit taps into, is something that we should not underestimate.

9. Let me therefore restate that we are committed fully to the support and strengthening of microcredit institutions. Microcredit is an important intervention especially when used with a battery of other instruments for the purpose of poverty eradication, as was made very clear in the message of the Secretary-General to the 1997 Microcredit Summit. The real challenge for us is to work out how we, in the international system, can best enhance our support for this initiative.

10. Let me also, in closing, refer briefly to a background document entitled "Poverty reduction strategies: a review" which is available. This is a review that we in the Department commissioned because, as you know, we have integrated analytical, normative and operational functions within single divisions, in this case the Division for Social Policy and Development; and one of the reasons we commissioned the review was in order to provide guidance for the orientation of our future work in the area of operational activities that are undertaken by this Department, mainly by way of advisory services. I refer you to page 18 of the document which I hope makes very clear that we are committed to microcredit as an important initiative. On that page, the document refers to the microcredit example of the Grameen Bank, stating that while some of the beneficial consequences have been questioned, it has nonetheless proved an effective means of poverty alleviation. The document refers to seven areas of policy which I would invite you to consider:

1. Respect fungibility: allow multiple uses of loans.

2. Use indirect targeting, avoid administrative costs, leakages and political manoeuvring.

3. Seek alternatives to physical collateral, for example, group lending/peer monitoring.

4. Minimize the transaction costs of participation.

5. Avoid lending monopolies.

6. Ensure that extra credit is productive, that opportunities for income-generation exist: here is where the linkage between microcredit and other interventions that enhance income opportunities becomes most obvious.

7. Subsidize administration, not interest.

11. These are just some of the suggestions that have come from various studies; all of these are positive suggestions and I would also invite you to look at this because of the broader framework that it gives for anti-poverty strategies. It deals with identification issues: who the poor are; with process issues: how poverty is reduced; and with the typology of poverty interventions: what is being done by way of poverty reduction strategies in the Bretton Woods institutions and United Nations agencies and among donors. Then, towards the end, it tries to draw operational implications for the work of the Division in its advisory services.

12. I would like to conclude by saying once again that we greatly look forward to the outcome of this debate and discussion and to seeing now we in the international system can enhance the efforts of countries on behalf of this great objective of the eradication of absolute poverty, which was endorsed at the World Summit for Social Development, held in Copenhagen in 1995.